

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input checked="" type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name City of Marquette Fire-Police Retirement Sys	County Marquette
Fiscal Year End 6-30-06	Opinion Date 12-08-06	Date Audit Report Submitted to State 12-29-06	

We affirm that:

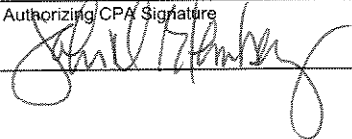
We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

- YES NO **Check each applicable box below.** (See instructions for further detail.)
- ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
 - ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
 - ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
 - ☒ ☐ The local unit has adopted a budget for all required funds.
 - ☒ ☐ A public hearing on the budget was held in accordance with State statute.
 - ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
 - ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
 - ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
 - ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
 - ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
 - ☒ ☐ The local unit is free of repeated comments from previous years.
 - ☒ ☐ The audit opinion is UNQUALIFIED.
 - ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
 - ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
 - ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)		
Financial Statements	<input checked="" type="checkbox"/>			
The letter of Comments and Recommendations	<input type="checkbox"/>	NONE		
Other (Describe)	<input type="checkbox"/>			
Certified Public Accountant (Firm Name) Anderson, Tackman & Company, PLC		Telephone Number 906-225-1166		
Street Address 102 W. Washington Street - Suite 109		City Marquette	State MI	Zip 49855
Authorizing CPA Signature 		Printed Name John W. Blemberg, CPA		License Number 10180

City of Marquette, Michigan
Fire – Police Retirement System

FINANCIAL STATEMENTS

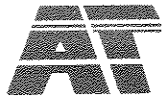
June 30, 2006 and 2005

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ANDERSON, TACKMAN & COMPANY, P.L.C.

CERTIFIED PUBLIC ACCOUNTANTS

PARTNERS

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

The Retirement Board
City of Marquette, Michigan
Fire - Police Retirement System
Marquette, Michigan

We have audited the accompanying financial statements of the Fire – Police Retirement System, Pension Trust Fund of the City of Marquette, Michigan as of June 30, 2006 and 2005 and for the years then ended. These financial statements are the responsibility of the City of Marquette, Michigan's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Fire - Police Retirement System, Pension Trust Fund of the City of Marquette, Michigan as of June 30, 2006 and 2005 and the results of its operations for the years then ended in conformity with generally accepted accounting principles.

The Supplementary Information listed in the table of contents, is not a required part of the financial statements. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Anderson, Tackman & Company, PLC
Certified Public Accountants

December 8, 2006

City of Marquette, Michigan
Fire - Police Retirement System
STATEMENTS OF PLAN NET ASSETS
For the years ended June 30, 2006 and 2005

	<u>2006</u>	<u>2005</u>
ASSETS		
Cash and short-term investments	\$ 1,689,738	\$ 290,535
Accrued interest	96,166	105,324
Investments - at fair value:		
United States Government Securities	4,947,662	5,018,812
Domestic Corporation Bonds	2,622,306	3,968,452
Common, Pooled Mutual Fund	16,168,899	15,459,157
Government National Mortgage Association	1,449	4,730
TOTAL ASSETS	<u>25,526,220</u>	<u>24,847,010</u>
LIABILITIES		
Accounts payable and other	-	(2,771)
NET ASSETS HELD IN TRUST FOR PENSION	<u>\$ 25,526,220</u>	<u>\$ 24,844,239</u>

The accompanying notes to financial statements are an integral part of this statement.

City of Marquette, Michigan
Fire - Police Retirement System
STATEMENTS OF PLAN NET ASSETS
For the years ended June 30, 2006 and 2005

	<u>2006</u>	<u>2005</u>
Additions:		
Contributions:		
Employer	\$ 265,196	\$ 136,351
Employee	222,169	134,165
Total Contributions	<u>487,365</u>	<u>270,516</u>
Investment income:		
Net appreciation (depreciation) in fair value	1,105,917	362,309
Interest and dividends	663,988	536,839
Net Investment Income (Loss)	<u>1,769,905</u>	<u>899,148</u>
Total Additions (Deductions)	2,257,270	1,169,664
Deductions:		
Benefits and annuity withdrawals	1,410,058	1,216,872
Investment expense	154,782	92,444
Administrative expense	10,449	10,544
Total Deductions	<u>1,575,289</u>	<u>1,319,860</u>
Net Increase (Decrease)	681,981	(150,196)
Net Assets Held in Trust for Pension Benefits:		
Beginning of year	24,844,239	24,994,435
END OF YEAR	<u>\$ 25,526,220</u>	<u>\$ 24,844,239</u>

The accompanying notes to financial statements are an integral part of this statement.

City of Marquette, Michigan
Fire – Police Retirement System
NOTES TO FINANCIAL STATEMENTS
June 30, 2006 and 2005

NOTE A – ACCOUNTING POLICY:

Summary of Significant Accounting Policies

Basis of Accounting – The City of Marquette Fire – Police Retirement System financial statements are prepared using the accrual basis of accounting. Plan member contributions are recognized in the period in which the contributions are due. Employer contributions to the plan are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

Method Used to Value Investments – Investments are reported at fair value. Securities traded on a national exchange are valued at the last reported sales price at current exchange rates. Mortgages are valued on the basis of future principal and interest payments, and are discounted at prevailing interest rates for similar instruments. The fair value of real estate investments is based on independent appraisals. Investments that do not have an established market are reported at estimated fair value.

NOTE B – PLAN DESCRIPTION AND CONTRIBUTION INFORMATION:

Plan Description

The City of Marquette is the administrator of a single-employer public employee retirement system (“System”) established and administered by the City of Marquette to provide pension benefits for the Fire and Police Department employees. The Fire and Police System is considered part of the City of Marquette’s financial reporting entity and is included in the City’s financial report as a pension trust fund. The City’s payroll for employees covered by the System for the year ended June 30, 2006 was \$2,855,572; the City’s total payroll was \$9,225,526.

Current membership in the Plan comprises the following as of December 31, 2005, the latest actuarial valuation date:

Group	
Retirees and beneficiaries currently receiving benefits	53
Vested terminated members	2
Active employees:	
Fire	25
Police	34
TOTAL	<u>114</u>

NOTE B – PLAN DESCRIPTION AND CONTRIBUTION INFORMATION (Continued):

The qualifying full-time employees of the Police Department and Fire Department are eligible to participate in the System. Benefits vest after ten years of service. Employees who retire at or after the age of 50 with 25 or more years of credited service or age 60 with 10 or more years of service, are entitled to annual retirement benefits, payable monthly for life, in an amount equal to a minimum of \$600 a month, or 3.0 percent for members of a three year average final compensation times the first twenty-five years of service plus 1.5 percent for Police and 1.0 percent for Fire members of average final compensation times years of service in excess of twenty-five years. The System also provides death and disability benefits.

Non-duty disability benefits are payable upon the total and permanent disability of a member with 5 or more years of service. Benefits up to age 55 are paid equaling 1.5% of the average final compensation times the years of service. Benefits after the age of 55 are the same as benefits received from service retirement.

Disability benefits from the total or permanent disability of a member in the line of duty are payable, up to the age of 55, (age 50 for Firefighters) at 50% of the average final compensation. Benefits after the age of 55 are the same as benefits from service retirement with service credit from date of disability to age 55, except for firefighters, whose full retirement is the equivalent of 25 years of service that the member would have had if not disabled.

If an active employee dies in the line of duty, the beneficiary will receive the same amount that was paid by worker's compensation.

If an active employee with 20 or more years of service (10 years required for fire members) dies not in the line of duty, the surviving spouse, if any, will receive an amount equal to the accrued straight line pension actuarially reduced in accordance with option I election.

Contributions

Covered employees are required by statute to contribute 5 percent of their salary to the System. If an employee leaves covered employment or dies before being eligible for retirement, the total accumulated employee contributions plus related investment earnings are refunded to the employee or designated beneficiary. Benefit and contribution provisions are established by State statute and City ordinance.

The City's funding policy provides for periodic employer contributions at actuarially determined rates that, expressed as percentages of annual covered payroll, are designed to accumulate sufficient assets to pay benefits when due. The normal cost and amortization payment for the year ended June 30, 2006 were determined using an entry age actuarial funding method. Unfunded actuarial accrued liabilities were amortized as a level percent of payroll over an open period of 21 years for police and 20 years for fire.

During the years ended June 30, 2006 and 2005 contributions totaling \$265,196 and \$136,351 respectively, were made in accordance with the contribution requirements as determined by an actuarial valuation of the System.

NOTE C – ACT 345 RESERVES:

Reserve for employee contributions consists of employee contributions, based upon 5% of gross salaries, and investment earnings, less amounts transferred to reserve for retired employee benefits.

Reserve for employer contributions consists of employer contributions, based upon actuarial valuation of current and past service costs, and investment earnings, less amounts transferred to reserve for retired employee benefits.

Reserve for retired employee benefits represents the actuarial valuation of pension's payable to retired employees, or on behalf of deceased employees, and investment earnings. The transfer is made from the above named reserve accounts at the time of retirement or death of an employee. There were fifty-one such pension's payable at June 30, 2006, and fifty-one such pensions payable at June 30, 2005.

Investment earnings are allocated to the reserves based on the following rates:

Employee Contributions	2% of the average balance of the Reserve Account.
Retired Employee Benefits	7% of the average balance of the Reserve Account.
Employer Contributions	Excess balance in the unallocated investment earnings reserve after interest has been allocated to the Employee Contribution Reserve and to the retired employee benefits Reserve Fund.

The composition of the reserve balances at year end are as follows:

	2006	2005
Employee contributions	\$1,746,803	\$1,629,043
Employer contributions	12,551,296	12,533,065
Retired employees	10,667,174	10,142,178
Pension enhancement	560,947	539,953
	<u>\$25,526,220</u>	<u>\$24,844,239</u>

NOTE D – DEPOSITS AND INVESTMENTS:

Cash Equivalents

The following is the composition of cash and investments:

Cash	\$1,689,738
Investments	23,740,316
	<u>\$25,430,054</u>

NOTE D – DEPOSITS AND INVESTMENTS (Continued):

Custodial Credit Risk – Deposits

Custodial credit risk is the risk that in the event of a bank failure, the System's deposits may not be returned to it. State law does not require and the System does not have a deposit policy for custodial credit risk. The carrying amounts of the deposits with financial institutions was \$1,689,738 and the bank balance was \$1,689,738. The bank balance is categorized as follows:

Amount insured by the FDIC or uncollateralized with securities held by the System in its name	\$43,061
Amount collateralized with securities held by the pledging financial institutions trust department in the System's name:	
Collateralized and uninsured	1,646,677
	<u>\$1,689,738</u>

Investments

As of June 30, 2006, the City had the following investments.

	Fair Value	Investment Maturities (In years)			
		Less than 1	1-5	6-10	More than 10
U.S. Government Agencies	\$4,947,662	\$550,985	\$1,715,212	\$1,951,697	\$729,768
Domestic Corporation Bonds	2,622,306	100,171	2,028,771	236,647	256,717
Common, Pooled Fund	16,168,899	16,168,899	-	-	-
Government National Mortgage Association	1,449	15	-	-	1,434
TOTAL INVESTMENTS	<u>\$23,740,316</u>	<u>\$16,820,070</u>	<u>\$3,743,983</u>	<u>\$2,188,344</u>	<u>\$987,919</u>

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of the System's investments. The System does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk

Michigan statute (Act 314, PA 1965, as amended) authorizes the System to invest in, with certain restrictions, stocks and mutual funds up to 60% of the system's assets; investments in the general or separate account of life insurance companies; fixed income securities; investments in leased property; direct investments in property; investments in real estate loans; investments in small business or venture capital firms in Michigan; surplus funds pooled accounts; and bank or trust company collective investment funds.

The System has no investment policy that would further limit its investment choices. The System's investments in corporate bonds were not available. Ratings are not required for the System's investment in U.S. Government Agencies or equity-type funds. The System's investments are in accordance with statutory authority.

NOTE E – CONCENTRATION OF INVESTMENTS:

This Plan does not hold any individual investments that represent 5.0% or more of the Plan's net assets.

***SUPPLEMENTAL FINANCIAL
INFORMATION***

**City of Marquette, Michigan
Fire – Police Retirement System
Required Supplementary Information**

SCHEDULE OF FUNDING PROGRESS

Actuarial Valuation Date <u>December 31</u>	(a) Actuarial Value of Assets	(b) Entry Age Actuarial Accrued Liability	(b-a) Unfunded Accrued Liability (UAL)	(a/b) Funded Ratio	(c) Annual Covered Payroll	[(b-a)/c] UAL as a Percentage of Covered Payroll
1992	\$13,878,662	\$11,219,729	\$(2,658,933)	124%	\$1,867,246	- %
1993	15,068,267	11,482,347	(3,585,920)	131	1,865,263	-
1994	15,843,231	12,212,035	(3,631,196)	130	1,946,521	-
1995	16,973,947	14,169,723	(2,804,224)	120	2,024,755	-
1996	18,118,588	15,362,498	(2,756,090)	118	2,084,753	-
1997	19,918,405	16,102,478	(3,815,927)	124	2,234,522	-
1998	22,301,497	17,189,981	(5,111,516)	130	2,248,447	-
1999	24,690,249	18,070,456	(6,619,793)	137	2,381,956	-
2000	26,681,186	18,922,286	(7,758,900)	141	2,477,522	-
2001	27,995,675	20,310,485	(7,685,190)	138	2,595,193	-
2002	27,832,278	22,046,809	(5,785,469)	126	2,669,333	-
2003	27,564,327	23,337,401	(4,226,926)	118	2,717,024	-
2004	27,258,447	24,686,419	(2,572,028)	110	2,888,945	-
2005	26,904,310	26,794,398	(109,912)	100	2,782,910	-

SCHEDULE OF EMPLOYER CONTRIBUTIONS

Fiscal Year Ending <u>June 30</u>	Annual Required Contribution	Percent Contributed
1992	\$246,778@	100.00%
1993	239,968@	100.00%
1994	248,045@	100.00%
1995	198,638@	100.00%
1996	207,560@	100.00%
1997	206,674@	100.00%
1998	220,008@	100.00%
1999	202,247@	100.00%
2000	-	-
2001	-	-
2002	-	-
2003	-	-
2004	-	-
2005	207,854	100.00%

@ In each the employer contributes exactly the actual dollar amount recommended by the actuary plus 5.0% of the actual pay during the fiscal year of both the fire chief and police chief.

City of Marquette, Michigan
Fire – Police Retirement System
Required Supplementary Information

NOTES TO THE REQUIRED SCHEDULES

The required contribution was determined using the entry age actuarial cost method. The actuarial assumptions included **(a)** a rate of return on the investment of present and future assets of 7.0% per year, compounded annually, **(b)** projected salary increases of 4.5% per year, compounded annually, attributable to inflation, **(c)** additional projected salary increases ranging from 0.00% to 3.50% per year, depending on age, attributable to seniority/merit, and **(d)** the assumption that benefits will not increase after retirement. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a five year period. The unfunded actuarial accrued liability is being amortized as a level percent of projected payroll on an open basis. The amortization period on December 31, 2005 was 21 years for police and 20 years for fire.

**City of Marquette, Michigan
Fire – Police Retirement System
Required Supplementary Information**

ACTUARIAL INFORMATION

Valuation Date	December 31, 2005
Actuarial Cost Method	Individual Entry Age
Amortization Method	Level Percent Open
Remaining Amortization Period	21 Years Police and 20 Years Fire
Asset Valuation Method	5 year – smoothed market
Actuarial Assumptions:	
Investment Rate of Return	7.0%
Projected Salary Increases including inflation at	4.5% - 8.0%

City of Marquette, Michigan
Fire - Police Retirement System
Required Supplementary Information

SCHEDULE OF CHANGES IN RESERVES

	Reserve for Employee Contributions	Reserve for Employer Contributions	Reserved for Retired Employee Benefits	Reserved for Pension Enhancement	Total
Balance at June 30, 2004 at Fair Market Value	\$ 1,465,258	\$ 12,353,257	\$ 10,646,453	\$ 529,467	\$ 24,994,435
Add:					
Employer contributions	-	136,351	-	-	136,351
Employee contributions	134,165	-	-	-	134,165
Unrealized appreciation	-	362,309	-	-	362,309
Interest and dividends	29,620	(215,864)	702,997	20,086	536,839
Subtotal	163,785	282,796	702,997	20,086	1,169,664
Deductions:					
Refunds	-	-	-	-	-
Pension payments	-	-	(1,207,272)	(9,600)	(1,216,872)
Administrative expenses	-	(102,988)	-	-	(102,988)
Subtotal	-	(102,988)	(1,207,272)	(9,600)	(1,319,860)
Transfers:					
Enhancement Reserve	-	-	-	-	-
Fire leave conversion	-	-	-	-	-
Actuarial provisions for pension benefits for current retired members	-	-	-	-	-
Subtotal	-	-	-	-	-
Balance at June 30, 2005 at Fair Market Value	1,629,043	12,533,065	10,142,178	539,953	24,844,239

(Continued)

(Continued)

	Reserve for Employee Contributions	Reserve for Employer Contributions	Reserved for Retired Employee Benefits	Reserved for Pension Enhancement	Total
Add:					
Employer contributions	\$ -	\$ 265,196	-	\$ -	\$ 265,196
Employee contributions	218,861	-	-	-	218,861
Unrealized appreciation	-	1,105,917	3,308	-	1,109,225
Interest and dividends	30,322	(104,526)	703,698	34,494	663,988
Subtotal	249,183	1,266,587	707,006	34,494	2,257,270
Deductions:					
Refunds	-	-	-	-	-
Pension payments	-	-	(1,291,850)	(13,500)	(1,305,350)
Administrative expenses	-	(165,231)	-	-	(165,231)
Annuity withdrawals	(104,708)	-	-	-	(104,708)
Subtotal	(104,708)	(165,231)	(1,291,850)	(13,500)	(1,575,289)
Transfers:					
Enhancement Reserve	-	-	-	-	-
Actuarial provisions for pension	(26,715)	(1,083,125)	1,109,840	-	-
benefits for current retired members	(26,715)	(1,083,125)	1,109,840	-	-
Subtotal	(26,715)	(1,083,125)	1,109,840	-	-
Balance at June 30, 2006 at					
Fair Market Value	\$ 1,746,803	\$ 12,551,296	\$ 10,667,174	\$ 560,947	\$ 25,526,220